GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2677
ANSWERED ON:31.08.2007
INCREASE IN THE INTEREST RATE
Pallani Shamy Shri K.C .

Will the Minister of FINANCE be pleased to state:

(a) whether the Government is aware that some nationalized/ private banks have increased the interest rates frequently for the loans raised by the customers, particularly during the last three years;

(b) if so, the details alongwiththe reasons therefor; and

(c) the steps taken by the Government to minimise hardship of customers?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) to (c): Yes, Sir. The Reserve Bank of India (RBI) has de-regulated interest rates on advances above Rs.2 lakh, including the housing loans, with effect from October 18, 1994 and interest rates are determined by the banks themselves with the approval of their Boards. For credit limit up to Rs.2 lakh, the Benchmark Prime Lending Rate (BPLR) has been prescribed as the ceiling lending rate. In order to enhance transparency in pricing of their loan products, banks have been advised by the RBI to fix their BPLR after taking into account

(i) actual cost of funds,
(ii) operating expenses and
(iii) a minimum margin to cover regulatory requirement of provisioning/ capital charge and profit margin and ensure that the BPLR truly reflects the actual cost. Banks are now allowed to freely price their products below or above their BPLR and offer floating rate products by using market benchmarks in a transparent manner.

As reported by the RBI, details of the BPLR of the Public Sector and Private Sector Banks for the last three years are as under:

Year	Public Sector Banks	Private Sector Banks
2004-05	10.25-11.25	11.00-13.50
2005-06	10.25-11.25	11.00-14.00
2006-07	12.25- 12.75	12.00-16.50

Given the prevailing credit market in India and the need to continue with concessionary for small borrowers, the practice of treating BPLR as the ceiling for loans up to Rs.2 lakh will continue. However, banks are free to determine the rates of interest without reference to BPLR and regardless of the size of loans in respect of loans for purchase of consumer durables, loans to individuals against shares and debentures/ bonds, other non-priority sector personal loans, including credit card dues etc.

In its Master Circular dated July 2, 2007 on Interest Rates on Advances issued to all the Scheduled Commercial Banks, RBI has advised the banks to lay out appropriate internal principles and procedures so that usurious interest, including processing and other charges, is not levied by them on loans and advances, including small value loans, particularly, personal loans etc. Such procedures should take into account, among others, factors like an appropriate prior-approval process keeping in view the cash flows of the prospective borrower, reasonable risk premium, the presence or absence of security and the value, justifiable interest and all other charges levied on a loan, an appropriate ceiling on interest, a reasonable expected return from the transaction, etc.